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July 11, 2006

RECEIVED

JUL 11 2006

PUBLIC SERVICE
COMMISSION

Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

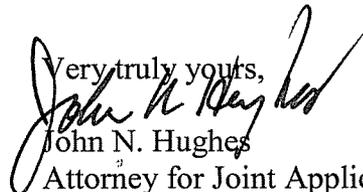
Re: Case No. 2006-00123

Dear Beth:

Please file the responses of Mountain Water District to the Commission's Order of July 5, 2006. The response to Item 4 has not been completed, but will be filed within the next day or two.

If there are any questions about this matter, please contact me.

Very truly yours,


John N. Hughes
Attorney for Joint Applicants,
city of Pikeville and
Mountain Water District.



KENTUCKY INFRASTRUCTURE AUTHORITY

Ernie Fletcher
Governor

1024 Capital Center Drive, Suite 340
Frankfort, Kentucky 40601
Phone (502) 573-0260
Fax (502) 573-0157
<http://kia.ky.gov>

Jody E. Hughes
Executive Director

June 30, 2006

Ms. Trish Varney
Mountain Water District
P.O. Box 3157
Pikeville, KY 41502

RE: Confirmation of Loan Balances
KIA Loans A95-16 and A00-03

Trish
Dear Ms. Varney:

The Mountain Water District's outstanding principal balances as of July 1, 2006 for the above-mentioned loans are:

A95-16	\$314,403.50
A00-03	\$924,250.79

Please call should you have any questions.

Sincerely,

Sandy Williams
Financial Analyst

Attachments

cc: Jerry Wuetcher, PSC
Mark Frost, PSC
Denise Pitts, KIA
A95-13 Status File
A00-03 Status File



United States Department of Agriculture
Rural Development
Morehead Area Office

7/3/2006

Ms. Trish Varney
Mountain Water District
P.O. Box 3157
Pikeville, KY 41502

Re: Loan 92-19

Dear Ms. Varney:

As per the request this date from Roger Recktenwald, I am furnishing you with the outstanding balance on the above referenced loan as of 7/1/06. The loan has unpaid principal in the amount of \$161,300.00. The accumulated interest as of 7/1/06 in the amount of \$3,629.25 was paid by Mountain Water District on 6/29/06.

It is our understanding that contingent on PSC approval, this loan will be assumed by the City of Pikeville. This office is still waiting on the receipt of certain documents from the City of Pikeville needed by our Office of General Counsel to enable them to write the closing instructions for this transaction. Mr. Recktenwald is working on getting these documents to us.

If you should have any question, please call Ronnie Brooks of this office at (606) 784-6447, Ext. 117.

Sincerely,

A handwritten signature in black ink, appearing to read "Jimmy H. Hall".

JIMMY H. HALL
Area Director

Cc: Gerald Wuetcher, Public Service Commission, 730 Schenkel Lane,
Frankfort, KY 40602-0615
Roger Recktenwald, Veolia Water, via FAX
State Director, Rural Development, Att: Community Programs

220 West First Street • Morehead, KY 40351
Phone: (606) 784-6447 • Fax: (606) 784-2076 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

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22225605 Mountain Water District Sewer Division 01/01/2005 - 12/31/2005

Statement of Income for the Year (Ref Page: 8)

Description	Number Customers (b)	Amount (c)
OPERATING REVENUES		
Flat Rate Revenues-General Customers:		
Residential Revenues (521.1)	0	\$365,886.00
Commercial Revenues (521.2)	0	\$322,953.00
Industrial Revenues (521.3)		
Revenues From Public Authorities (521.4)		
Total (521)	0	\$688,839.00
Measured Revenues - General Customers: (483)		
Residential Revenues (522.1)		
Commercial Revenues (522.2)		
Industrial Revenues (522.3)		
Revenues From Public Authorities (522.4)		
Total (522)		
Revenues From Public Authorities (523)		
Revenues From Other Systems (524)		
Miscellaneous Sewage Revenues (526)		
Total Sewage Service Revenues (521-526)	0	\$688,839.00
OTHER OPERATING REVENUES		
Customers Forfeited Discounts (532)		
Miscellaneous Operating Revenues (536)		
Total Other Operating Revenues		
Total Operating Revenues		\$688,839.00

22225605 Mountain Water District Sewer Division 01/01/2005 - 12/31/2005

Statement of Income for the Year (Ref Page: 8)

Description	Number Customers (b)	Amount (c)
OPERATING EXPENSES		
Total Sewer Operation and Maint. Expenses (from pg 9)		\$181,835.00
Depreciation Expense (403)		\$189,640.00
Amortization Expense (from pg 10) (404-407)		
Taxes Other Than Income taxes (from pg 10) (408.1)		\$4,758.00
Total Income Taxes-Utility Operations (from pg 10)		
Total Sewage Operating Expenses		\$376,233.00
Net Operating Income		\$312,606.00
OTHER INCOME		
Income from NonUtility Operations (417)		
Interest and dividend Income (419)		\$4,502.00
Miscellaneous Nonoperating Income (421)		
Other Accounts (Specify Acct. No & Title)		
Total Other Income		\$4,502.00
OTHER DEDUCTIONS		
Interest on Long-Term Debt (427)		\$28,441.00
Amortization of Debt Discount and Expense (428)		
Interest on Debt to Associated Companies (430)		
Other Interest Expense (431)		

22225605 Mountain Water District Sewer Division 01/01/2005 - 12/31/2005

Statement of Income for the Year (Ref Page: 8)

Description	Number Customers (b)	Amount (c)
Taxes Other than Income Taxes 408.2 (from pg 10)		
Total Income Taxes-Nonutility Operations (from pg 10)		
Other Accounts (Specify Acct. No. and Title)		
Total Other Deductions		\$28,441.00
Net Income		\$288,667.00

Mountain Water District - Sewer Utilities
Income Statement for the Period Ended 12/31/05

	Including Mossy Bottom	Adjustments for Mossy Bottom	Adjusted Without Mossy Bottom
Operating Revenues:			
Flat Rate Revenue:			
Residential Revenues	\$ 365,886	\$ 121,000	\$ 244,886
Commercial Revenues	322,953	109,000	213,953
Total Sewage Service Revenues	688,839	230,000	458,839
 Operating Expenses:			
Labor	66,372	25,000	41,372
Fuel & Power Purchased	23,012	22,800	212
Chemicals	4,860	9,000	(4,140)
Miscellaneous Supplies & Expenses - Pumping	5,850	4,020	1,830
Miscellaneous Supplies & Expenses - Treatment	70,927		70,927
Total Operating Expenses	171,021	60,820	110,201
 Maintenance Expenses:			
Maintenance of Treatment & Disposal Plant	(17,600)		
 Administrative & General Expenses			
Office Supplies & Other Expenses	7,185	4,020	3,165
Insurance Expense	9,951		9,951
Employee Pensions & Benefits	11,278		11,278
Total Administrative & General Expenses	28,414	4,020	24,394
 Total Sewer Operation & Maintenance Expenses	181,835	64,840	134,595
 Depreciation Expense	189,640	76,170	113,470
 Taxes Other than Income Taxes	4,758	-	4,758
 Interest & Dividend Income	4,502	-	4,502

Interest on Long-Term Debt	28,441	27,927	514
Total Sewage Expenses	404,674	168,937	235,737
Net Operating Income	\$ 288,667	\$ 61,063	\$ 227,604

Mountain Water District
Proposed Journal Entry (Revised)
Mossy Bottom Transfer

Account No.	Description	Debit Amount	Credit Amount
1005-17	Collection Sewers		\$ 3,174,936.29
1105-17	Accumulated Depreciation - Collection Sewers	\$ 1,802,913.41	
2220-17	N/P - KIA Loan No. A95-16	\$ 314,403.50	
2222-17	N/P - KIA Loan No. A00-03	\$ 924,250.79	
2209-17	Bonds Payable - RD Bond No. 92-19	\$ 161,300.00	
2712-17	Contributions in Aid of Construction***	\$ 1,452,643.15	
4140-17	Gain/Loss on Dispositions		\$ 1,480,574.56
		\$ 4,655,510.85	\$ 4,655,510.85

*** Contributions in Aid will be debited for the total contributions on the project less the value of items that are not being transferred to the City of Pikeville (see attached)

Attachment 1

Assets Remaining with Mountain Water District:

Date Capitalized	Description	Amount	Accumulated Depreciation @ 7/31/06
05/01/98	Chlorinator System	\$ 75,000.00	\$ 33,462.33
05/01/98	Plant/Electrical	\$ 450,000.00	\$ 200,773.97
05/01/98	Fencing/Yard Improvements	\$ 85,000.00	\$ 49,276.52
05/01/98	Fencing/Yard Improvements	\$ 3,275.00	\$ 1,461.19
05/01/98	Office	\$ 5,000.00	\$ 4,461.64
09/30/98	Trash Pump	\$ 1,107.00	\$ 447.81
09/30/98	Water Jet Drain Cleaner	\$ 4,328.44	\$ 1,695.78
10/31/98	Trailer	\$ 12,140.00	\$ 9,810.12
05/01/98	Generator	\$ 50,000.00	\$ 22,308.21
01/01/01	Treatment Plant	\$ 346,313.89	\$ 96,635.78
01/01/01	Yard Improvements	\$ 49,642.26	\$ 13,852.21
Total Mossy Bottom Assets		\$ 1,081,806.59	\$ 434,185.56
Total Contributions in Aid		\$ 2,534,449.74	
Net Transfer to Contributions in Aid		\$ 1,452,643.15	